

**Recovery Act: Progress Report for
Transportation Infrastructure Investment
Testimony submitted by Rosemarie Andolino
Before The House Committee on Transportation and Infrastructure
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Thank you, Mr. Chairman. My name is Rosemarie Andolino, and I am the Commissioner of the Chicago Department of Aviation. On behalf of the American Association of Airport Executives (AAAE), I appreciate the opportunity to testify before your Committee to discuss stimulus funding for airports and other ways to invest in our country's infrastructure. I want to thank you for this Committee's work in support of the American Recovery and Reinvestment Act of 2009. You are to be commended for your continued commitment to these issues that are so critical to our entire nation.

I would also like to thank you and the Members of this Committee for passing H.R. 915, The *FAA Reauthorization Act of 2009*, multi-year legislation reauthorizing the Federal Aviation Administration (FAA). This legislation includes a critically needed increase in the Passenger Facility Charge (PFC) cap and additional Airport Improvement Program (AIP) funds. With your leadership, airports nationwide are going to receive critical funding to increase system capacity, safety, and efficiency, as well as make environmental improvements.

In Chicago, we are committed to increasing the efficiency, capacity and environmental sustainability of our airports. The Chicago Department of Aviation is the owner and operator of O'Hare and Midway International Airports. Chicago's airports play a key role in the global aviation system. Today, O'Hare and Midway handle more than 82 million passengers annually and provide travelers with direct and nonstop service to more than 230 cities worldwide. Chicago's airport system is more than a gateway for millions of travelers; it also serves a vital role in global commerce, shipping and receiving more than 1.3 million tons of freight, mail and goods each year.

As is the case with most airports across the country, O'Hare and Midway are major economic engines for our city, region and the state, generating nearly \$45 billion in economic activity and 540,000 jobs. Our plans to modernize O'Hare, which I will describe later in my testimony, will create up to 195,000 jobs and add \$18 billion to the Chicago region's community.

We all know the current economy has affected demand for air travel nationwide, but we are confident the industry will rebound and demand will exceed levels ever experienced before. We saw the future when aviation activity peaked prior to current downturn and we initiated the improvements needed to serve those levels of activity.

American Recovery and Reinvestment Act

Airport Improvement Program Funds: As members of this Committee know, the Recovery Act included \$1.1 billion for ready-to-go airport construction projects. Large and small airports around the country are using the additional AIP funding to improve their facilities and stimulate the economy by creating good-paying jobs.

The FAA indicates that it has already issued 325 grants for 359 airport construction projects. This amounts to more than 99% of the AIP funds contained in the Recovery Act -- or \$1.095 billion. The FAA expects to distribute the remaining funds before the end of the year. It is my understanding that construction is underway on 355 of the 359 projects and that construction on the other 4 projects will begin later this month.

Earlier this year, the Chicago Department of Aviation was awarded \$12.3 million in Recovery Act grant funding for improvements to replace concrete pavement on Runway 10-28 and Taxiway M (Mike) at O'Hare International Airport. The projects are substantially complete, and both will improve runway operations and increase efficiency not only at O'Hare, but throughout the national aviation system. While we are successfully implementing a large modernization of O'Hare, this stimulus funding allowed us to proceed with additional work that produced benefits beyond those provided by the modernization program. And just like all other new design and construction work performed at Chicago's airports, the runway and taxiway stimulus projects are being completed in the most environmentally sustainable manner possible.

The stimulus work at O'Hare has succeeded in putting people to work. In fact, our contractor has recorded a total of 33,300 man hours on the stimulus work through October 2009 enough to employ 35 full-time jobs over the period.

The FAA should be commended for getting the grants out the door as quickly as it did. The agency's prompt actions have allowed airports to move ahead with their infrastructure projects and create jobs in their local communities. Stimulus funding has gone a long way towards increasing air travel efficiency and enhancing safety at our nation's airports. And it's important to keep investing in the aviation industry, not only because airports and airlines are proven economic generators for cities, regions and states across the nation but because Air Transportation is critical to the entire country's economic health and global competitiveness.

Facilities and Equipment Funds: The Recovery Act also included \$200 million for FAA facilities and equipment to help modernize and improve our air traffic control system. Of those funds, \$50 million was designated to upgrade FAA power systems; \$50 million for modernizing en-route air traffic centers; \$80 million to replace air traffic control towers and Terminal Radar Approach Control facilities; and \$20 million to install airport lighting, navigation and landing equipment. According to the FAA, those funds will be used on more than 300 projects at airports around the country.

Alternative Minimum Tax: Federal tax law has a track record of classifying the vast majority of bonds that airports use as private activity even though they are used to

finance runways, taxiways and other facilities that benefit the public. Since private activity bonds are subject to the Alternative Minimum Tax (AMT), airport bond issuers traditionally have been charged higher interest rates on their borrowing.

The Recovery Act eliminated the AMT penalty on private activity bonds that airports and other entities issue in 2009 and 2010. The bill also allows airports and others to refund bonds issued in the past five years that are callable in 2009 and 2010. The AMT provisions are helping airports throughout the country create jobs by moving forward with critical infrastructure projects that had been delayed because of the financial crisis and the collapse of the bond market.

The Metropolitan Washington Airports Authority sold \$400 million in airport revenue bonds earlier this year. The airport refunded another \$450 million in bonds this summer and recently issued almost \$108 million in non-AMT short-term commercial paper. Miami International Airport sold \$600 million in bonds in May and recently announced plans to issue another \$600 million in airport revenue bonds. Airport officials expect that the AMT provisions will save Miami Dade between \$9 million and \$14 million per year.

The FAA estimates that airports have issued more than \$5 billion in bonds since Congress passed the Recovery Act. More than \$4 billion of that amount benefited from the AMT provisions saving airports approximately \$639 million. The FAA expects those savings will exceed \$1 billion by the end of year. Those savings are important, because they allow for greater investment in the job-creating “bricks & mortar” activities.

Build America Bonds: The Recovery Act is also helping state and local governments reduce their financing costs and build infrastructure projects through Build America Bonds. These new bonds, instead of being fully tax-exempt like governmental bonds, allow state and local governments to receive a direct payment from the Federal government in an amount equal to 35% of the interest payment on the bonds.

According to the Department of Treasury, more than \$35 billion in Build America Bonds have been issued in 39 states. Although most bonds that airports issue are classified as private activity, some airports have benefited from the lower borrowing costs associated with Build America Bonds and the fact that they appear to a different class of investor. For example, Denver International Airport issued slightly more than \$65 million in Build America Bonds in October to fund new capital projects. Issuing Build America Bonds instead of tax-exempt bonds will save the airport approximately \$19.4 million in net debt service costs.

Aviation Security Funding: The Recovery Act included \$1 billion for aviation security projects. The Transportation Security Administration (TSA) is designating \$700 million of that for the procurement and installation of in-line explosive detection systems (EDS) and \$300 million for checkpoint explosives detection equipment. A number of airports around the country are already using these funds to enhance aviation security at their facilities.

By early September, TSA had awarded \$354 million for in-line EDS projects at 18 airports. In October, Department of Homeland Security Secretary Janet Napolitano announced that the agency would be awarding \$355 million for airport security projects including \$254 million for in-line EDS systems at six additional airports. She also announced that an additional \$38 million would be used to improve surveillance capabilities at six airports. Of that amount, Chicago Midway International Airport will receive \$2.7 million for a closed circuit television (CCTV) security system, which will further support the airport's security efforts.

The Next Jobs Bill Should Help Airports Improve Aviation Safety and Stimulate the Economy

Mr. Chairman, the Recovery Act has helped airports around the country move forward with key infrastructure projects, reduce their financing costs and enhance aviation safety and security. As Congress begins to consider other legislation to help create jobs we encourage you to build on the successful airport-related provisions in the Recovery Act and include provisions in the next jobs bill to help airports create jobs and stimulate the economy.

Provide Additional Funding for Airport Infrastructure Projects: One of the effects of this economic downturn is that fewer people are flying and as a result, fewer people are employed by the aviation industry. Now, while airline traffic is down, we should take advantage of this opportunity to reinvest in our airport's infrastructure, making it safer and more efficient.

History will show that over the years the aviation industry has had some challenges, resulting in air traffic dropping. But under each and every circumstance, air traffic rebounded – and more importantly, it came back even stronger than before. To meet the needs of the future, we need to add capacity today to our national aviation system – essentially building new runways.

Late last year, the FAA released its National Plan of Integrated Airport Systems for 2009 to 2013. The report indicates that there will be \$49.7 billion of AIP-eligible projects during the next five years – or approximately \$10 billion per year. This is approximately 21 percent higher than the \$41.2 billion that FAA estimated for AIP-eligible construction projects for 2007 to 2011. As members of this Committee know the annual \$10 billion in eligible projects is far more than Congress appropriates for AIP every year.

Despite this Committee's support for increasing AIP funding by \$100 million per year, Congress has appropriated approximately \$3.5 billion for AIP every year during the past five years. This means that airports received approximately \$1 billion less in AIP funds from FY06 through FY09 than this Committee approved. Unfortunately, the House- and Senate-passed versions of the FY10 DOT spending bill include the same funding level for AIP – or approximately \$500 million less than the \$4 billion that this Committee proposed for AIP in the same fiscal year as part of H.R. 915.

Again, airports are grateful that the Recovery Act included \$1.1 billion in AIP funding. Considering the significant airport capital needs and the flat funding that AIP has received in the appropriations process in recent years, we encourage Congress to include significantly more than \$1.1 billion in the subsequent jobs bill. We also recommend that airports be given greater flexibility in using these funds.

Specifically, H.R. 915 includes a welcome provision that would allow non-primary airports to use their AIP entitlements for revenue-producing aeronautical support facilities such as new fuel farms and hangars. We should build on that proposal and allow airports to temporarily use additional AIP funds for critical projects that are not currently AIP-eligible if those airports can certify that their airside needs have been met.

If the goal of the subsequent jobs bill – like the Recovery Act – is to stimulate the economy by creating jobs, airports should be allowed to use additional AIP funds for a wider set of eligible projects that put more people back to work in their communities. With additional flexibility and significantly more funds, airports can improve aviation safety and security, prepare for future demand and create much-needed jobs.

In Chicago, we have significant experience in successfully completing major capital development projects at our airports. Midway's terminal underwent a complete reconstruction a few years ago, and we are in the midst of a major modernization program at O'Hare right now. Investments in these projects create substantial construction jobs immediately, in turn produce indirect benefits quickly to the local communities, and in the long-term, provide even greater economic generation through enhanced airport capacity and efficiency.

For example, at O'Hare, we are currently performing approximately \$45 million of design work and \$161 million in construction in 2009, with those numbers anticipated to increase to approximately \$68 million and \$383 million respectively in 2010. Such funding levels allow for the creation of nearly 200 design jobs and more than 900 construction jobs in 2009, and nearly 300 design and more than 2,200 full-time construction jobs in 2010. Our current plans have us completing our airfield modernization program in 2014. As evidenced by our successful quick use of the \$12 million in additional funding earlier this year, we've proven an ability to speed-up job-creation, while doing so in a manner that also serves as a long-term investment in airport infrastructure. We have also demonstrated a commitment to perform this work in the most environmentally-friendly manner possible.

Permanently Eliminate AMT Penalty on Airport Private Activity Bonds: I realize that this isn't under the jurisdiction of this Committee, but I urge you to work with your colleagues on the House Ways and Means Committee to permanently eliminate the AMT penalty on airport private activity bonds. Doing so would reduce airport financing costs and allow airports to invest more funds into other critical infrastructure projects.

The Recovery Act took a step in the right direction by temporarily eliminating the AMT penalty on airport private activity bonds. But those provisions only apply to bonds issued in 2009 and 2010. A permanent AMT fix would help save airports even more money, allow them to invest in more infrastructure projects and create even more jobs.

My colleagues at San Francisco International Airport estimate that the temporary AMT provisions in the Recovery Act will save the airport approximately \$175 million over the life of their bonds. A permanent AMT fix would lower the airport's debt service costs by more than \$650 million over the life of the bonds. Considering the potential savings at just one airport, it is not unreasonable to expect that a permanent AMT fix could save airports billions of dollars in lower financing costs, allowing for more investment activities that create significant job levels.

Extend Build America Bonds: Like the AMT provisions, the Build America Bonds program expires at the end of next year. The AMT provisions have had a much larger financial impact on many more airports than the Build America Bonds. Permanently eliminating the AMT penalty on airport private activity bonds continues to be our top tax-related priority. However, Build America Bonds are another tool that some airports can use to reduce their financing costs. Consequently, we encourage Congress to include a provision in the next jobs bill that would extend Build America Bonds beyond FY10. We also encourage Congress to consider calls to increase the subsidy rate beyond 35%.

Provide Funding to Expedite Critical Security Projects at Airports: Much progress has been made in recent years to target federal resources toward important security-related projects at airports including permanently installing EDS equipment as part of in-line baggage systems, enhanced camera technologies and initiatives to strengthen perimeter security. Previous investments in in-line systems and other critical security projects have created high-paying jobs while increasing security, safety and efficiency at airports across the country. However, significant needs remain. We urge Congress to continue to invest in airport security-related projects as a way to enhance aviation security and stimulate the economy by creating jobs.

Passing a Multi-Year FAA Reauthorization Bill and Raising the PFC Cap Will Also Help Airports and Stimulate the Economy

In addition to passing another jobs bill Congress can stimulate the economy by sending a multi-year FAA reauthorization bill to the President's desk that raises the PFC cap and increases AIP funding. Due to the leadership of this Committee, the House of Representatives has done its part by approving H.R. 915. We hope the Senate will follow your lead and pass its version of the FAA reauthorization bill soon.

As you know, airports have been urging Congress to raise the PFC cap from \$4.50 to \$7.50 and index it for construction cost inflation. We are grateful that H.R. 915 proposes to raise the PFC cap to \$7.00. If enacted into law, the additional \$2.50 would generate more than \$1 billion per year for critical safety, security and capacity projects at airports around the country.

While allowing completion of critical airport infrastructure projects, raising the PFC cap and increasing AIP funding would also help stimulate the economy by creating tens of thousands of good-paying jobs every year. These two funding mechanisms will also help Chicago fund the Completion Phase of the O'Hare Modernization Program (OMP), Mayor Richard M. Daley's vision to build a 21st century airport at O'Hare that will help alleviate critical airport delays in the National Air Transportation system.

O'Hare Modernization Program: The OMP has been the Chicago region's economic stimulus package for the past seven years – putting thousands of people to work, rebuilding our infrastructure and keeping businesses here in the City and the state. So far, we estimate that as many as 550 design jobs have been created in a single year and more than 12,000 construction jobs created since the beginning of the program.

The City's plan to modernize O'Hare International Airport continues to make great progress and will secure Chicago's key role as the center of the global aviation system. The OMP, which is reconfiguring O'Hare's outdated intersecting runway system into a parallel runway configuration, will substantially reduce delays and increase capacity at O'Hare well into the future. As I mentioned in my opening remarks, the OMP will create up to 195,000 jobs and add \$18 billion to the Chicago region's economy.

2009 was the first full year of operation for two runway projects and the new North Air Traffic Control Tower. Operation of new Runway 9L/27R, O'Hare's first new runway since 1971, has already helped increase O'Hare's on-time arrival rate by 22 percent. As you know, reducing airline delays by increasing airport capacity also helps the economy. According to a report that the Joint Economic Committee released last year, flight delays cost the economy more than \$40 billion in 2007.

As of August of 2009, the OMP has awarded a total of \$1.244 billion in construction bid packages. We will advertise up to an additional \$22 million in construction work through the end of 2009. Additionally, we will advertise up to \$245 million in construction bid packages in 2010. This work will focus on enabling projects and paving for the central portion of Runway 10C/28C.

Construction will continue in 2010 on Runway 10C/28C, a Group VI capable runway being built to accommodate larger aircraft and further reduce delays and add capacity at O'Hare. Design and planning efforts for the Completion Phase of the OMP, which includes two new runways, the extension of another runway, a new South Air Traffic Control Tower, a western terminal and related facilities has begun. Construction for the Completion Phase is scheduled to begin in 2010.

Sustainability

As we work to improve infrastructure and create new jobs, it is critical to incorporate environmentally friendly technologies and solutions into these efforts. As we have

learned in Chicago, sustainability initiatives and efforts are not only possible at Chicago's airports, they are essential.

In 2003, the OMP created the Sustainable Design Manual (SDM), which positioned Chicago as the first in the nation to develop sustainable guidelines for design and construction at airports. It established the model for green airport development and has since received national and international recognition. The manual was developed specifically to consider the four general project categories that are part of the OMP: civil airside; civil landside; occupied buildings; and unoccupied buildings. The OMP also developed a rating system to recognize compliance with the manual and reward design and construction accomplishments.

The OMP has also implemented a balanced earthwork management plan in the process of moving over 15 million cubic yards of soil to build the runways and supporting infrastructure projects. We have saved well over \$100 million in program costs by keeping soil onsite instead of hauling it away and dumping it in local landfills. Additionally, the OMP has saved nearly \$2 million by crushing concrete and asphalt onsite and reusing it throughout the program.

In 2009, the Department hosted the second "Airports Going Green" Conference in Chicago, which was attended by more than 300 airport managers and executives from around the globe. The Conference featured nationally and internationally recognized aviation, environmental and federal agency leaders. The goal was to share best practices and sustainable airport success stories, and to develop partnerships to continue going green at airports.

At the Conference, the Chicago Department of Aviation and the OMP created and released the Sustainable Airport Manual (SAM). The SAM expands on the green airport design and construction guidelines set forth in the original SDM and incorporates the lessons learned in six years of sustainable efforts at the OMP. The creation of SAM has been a collaborative effort with contributions from nearly 200 airport executives, environmental experts and industry leaders from across the U.S. and around the world. Because design and construction activities are only part of an airport's functions, we are creating additional chapters for SAM, to incorporate sustainability into airport planning, daily operations and maintenance, as well as concessions and tenants. We look forward to continued involvement from our industry partners, because the SAM is intended to be a living document that will continuously evolve, improve and grow as future technologies emerge. These efforts will also help promote "green" jobs in our industry.

Conclusion

As the aviation industry continues to evolve, we must be prepared to meet the needs of the industry, now and well into the future, to ensure our airports remain powerful economic engines, both locally and nationally. Now is the time to make investments in our national airport system. We appreciate the work and the leadership of this Committee with regards to the Recovery Act and the FAA Reauthorization legislation.

These initiatives are helping to improve aviation safety, enhance system capacity, and support construction at airports around the country – with the added benefit of stimulating the economy. We are grateful for the support and encourage the Congress to continue these critical efforts.